

FDIC State Profile

Winter 2004

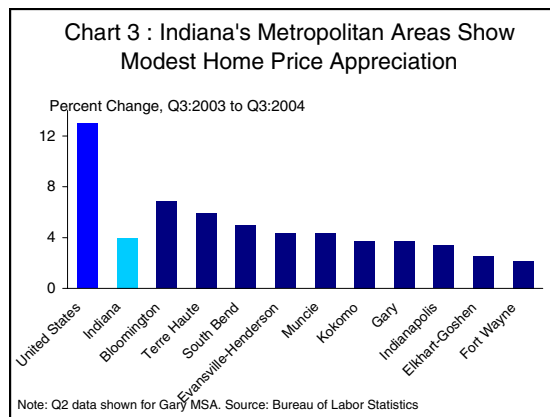
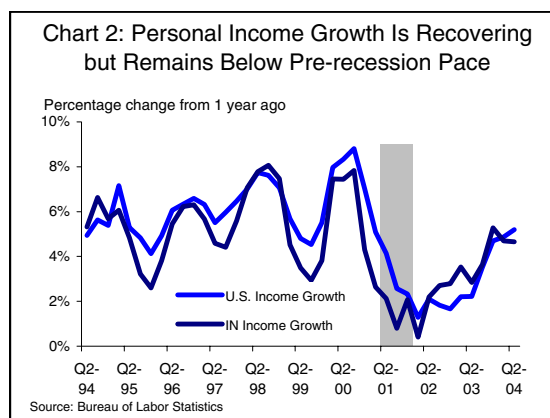
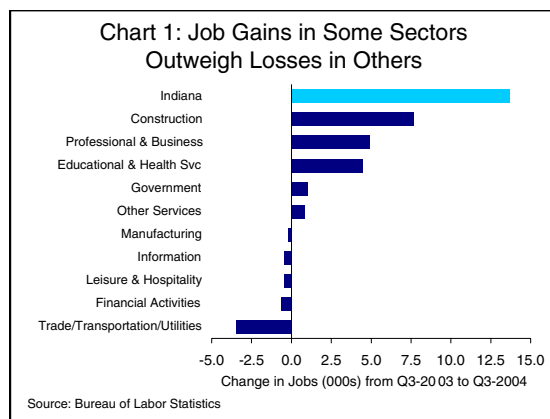
Indiana

Indiana's economy shows modest improvement.

- Indiana posted modest, yet sustained, job growth in the first three quarters of 2004. Job gains in some sectors more than offset losses in others (See Chart 1). The last time the state experienced three consecutive quarters of job growth was in late 1999 and early 2000.
- Conditions in metropolitan areas varied considerably, with about half having year-over-year job growth and the rest having losses. In the **Indianapolis** metropolitan area, which accounts for 30 percent of employment statewide, job recovery stalled in the second and third quarters of 2004, following six quarters of modest gains. The leisure and hospitality sector accounted for 3,300 of the 7,700 jobs lost in the past year.
- In contrast, the **Fort Wayne** metropolitan area recently recorded job growth for the first time since mid-2000. Among the 2,200 jobs added in the past year, education and health services accounted for half.

Outlook for Indiana households brightens.

- Reflecting the modest improvement in labor market conditions, personal income growth is strengthening but remains below its pre-recession pace (See Chart 2).
- Home price appreciation is boosting the net worth of Indiana homeowners less than in many states. Four percent appreciation in Indiana recently was among the slowest nationwide, and the pace varied among metropolitan areas in the state (See Chart 3).
- Improving labor market conditions, a recent plateau in bankruptcy filings, and declining mortgage delinquency rates in the first half of 2004 suggest the worst may be over for Indiana households. Even so, job growth may be tempered as firms, especially manufacturers, rely heavily on productivity gains rather than employment growth to produce more output.



State Profile

Community institution profitability holds steady.¹

- Indiana's community banks held aggregate return on assets steady in the third quarter compared with a year earlier. Reductions in provision expenses, made possible by improving asset quality, were more than offset by reduced noninterest income (See Table 1).
- Profitability of Indiana community institutions remains lower than for most other states, largely due to substantial holdings of typically lower-yielding one-to-four family residential loans.
- The decline in noninterest income is likely attributable to lower fee income associated with mortgage activity as well as a decline in gains on the sale of loans.
- Relative to third quarter 2003, funding costs have fallen slightly faster than asset yields yet net interest margins remain below those posted in third quarters of 2002 and earlier.

Community institutions' asset quality improved.

- Overall asset quality trends remain favorable, with past-due rates well below their year ago levels. All major loan categories saw improvement in past-due rates (See Chart 4).
- However, the third-quarter past-due rate of 2.01 percent of total loans was 14 basis points higher than in second quarter 2004. Much of this increase reflects a spike in past-due commercial and industrial loans and a modest rise in nonresidential real estate delinquencies.
- Net chargeoff trends do not reveal any significant asset quality problems. The net chargeoff rate declined for most major loan types during the past year and remains modest overall.

Bank consolidation was significant in the past decade.

- Indiana experienced consolidation exceeding the national average during the past ten years. The number of head offices declined by 35 percent, to 201, compared with a 30 percent decline for the nation. During the same time, branch growth in the state was only 10 percent, to 2,074 offices. Structural changes varied among the three metropolitan areas with the largest deposit volumes (See Chart 5).
- An increase in interstate branching across the Indiana-Illinois border may occur in response to an Illinois

banking act enacted in August.² The legislation³ allows out-of-state banks to operate de novo branches in Illinois subject to reciprocity provisions. Previously, expansion into Illinois by out-of-state banks was only possible by acquiring an Illinois bank charter. Although the new law affects 16 states and the District of Columbia, Indiana is the only contiguous state with a reciprocal law.

Table 1: Earnings Performance Stabilizes in Third Quarter

Income statement contribution (as a percentage of average assets)			
	3 months ended September 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.30	3.36	0.06
Noninterest Income	1.01	0.82	-0.19
Noninterest Expense	-2.74	-2.74	0.00
Provision Expense	-0.34	-0.19	0.15
Security Gains & Losses	0.06	0.03	-0.03
Income Taxes	-0.39	-0.38	0.01
Net Income (ROA)	0.90	0.90	0.00

Source: FDIC. Indiana Community Banks and Thrifts.

Chart 4: Past-Due Rates Improved Across Most Loan Categories

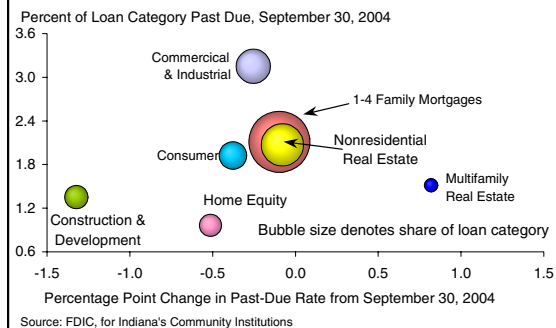
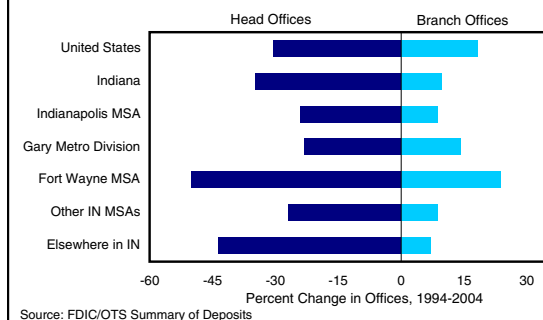


Chart 5: Branch Growth Trails the Nation in Most of Areas of the State



¹Community institutions are insured banks and thrifts with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks and thrifts.

²Ben Jackson, American Banker, New Illinois Law Lets Casey, other Illinois Banks Enter Indiana. October 28, 2004.

³Public Act 93-0965

Indiana at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	197	207	213	220	221
Total Assets (in thousands)	113,118,718	132,211,733	118,097,332	117,352,836	97,711,554
New Institutions (# < 3 years)	1	5	8	11	10
New Institutions (# < 9 years)	16	18	19	20	16
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.48	9.48	9.32	9.36	9.29
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.96%	1.99%	1.98%	2.07%	1.78%
Past-Due and Nonaccrual >= 5%	14	14	25	18	8
ALLL/Total Loans (median %)	1.13%	1.20%	1.15%	1.10%	1.10%
ALLL/Noncurrent Loans (median multiple)	1.42	1.35	1.27	1.55	1.90
Net Loan Losses/Loans (aggregate)	0.28%	0.42%	0.38%	0.43%	0.25%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	10	8	12	14	10
Percent Unprofitable	5.08%	3.86%	5.63%	6.36%	4.52%
Return on Assets (median %)	0.82	0.95	0.97	0.92	0.90
25th Percentile	0.53	0.60	0.71	0.62	0.66
Net Interest Margin (median %)	3.69%	3.75%	3.95%	3.86%	3.96%
Yield on Earning Assets (median)	5.54%	5.93%	6.72%	7.81%	8.00%
Cost of Funding Earning Assets (median)	1.77%	2.15%	2.78%	4.11%	4.15%
Provisions to Avg. Assets (median)	0.12%	0.15%	0.15%	0.13%	0.11%
Noninterest Income to Avg. Assets (median)	0.69%	0.75%	0.68%	0.64%	0.56%
Overhead to Avg. Assets (median)	2.76%	2.77%	2.70%	2.66%	2.70%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	88.02%	87.11%	87.25%	89.31%	90.17%
Loans to Assets (median %)	70.31%	68.61%	69.32%	70.90%	71.77%
Brokered Deposits (# of Institutions)	60	49	49	41	34
Bro. Deps./Assets (median for above inst.)	4.61%	3.62%	2.64%	2.21%	1.69%
Noncore Funding to Assets (median)	23.16%	21.78%	22.28%	21.48%	22.36%
Core Funding to Assets (median)	65.03%	66.21%	66.52%	66.78%	66.61%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	79	92	94	96	96
National	32	28	31	33	32
State Member	29	29	28	27	25
S&L	14	15	15	16	16
Savings Bank	36	36	38	41	46
Stock and Mutual SB	7	7	7	7	6
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	96	21,885,849	48.73%	19.35%	
Indianapolis IN	23	50,949,451	11.68%	45.04%	
Gary IN PMSA	15	7,659,587	7.61%	6.77%	
Ft Wayne IN	13	4,144,233	6.60%	3.66%	
Louisville KY-IN	11	2,620,939	5.58%	2.32%	
Evansville-Henderson IN-KY	10	12,390,365	5.08%	10.95%	
Terre Haute IN	5	2,294,466	2.54%	2.03%	
Cincinnati OH-KY-IN PMSA	5	682,567	2.54%	0.60%	
Lafayette IN	4	1,845,931	2.03%	1.63%	
Elkhart-Goshen IN	4	410,128	2.03%	0.36%	
South Bend IN	3	4,195,299	1.52%	3.71%	
Kokomo IN	3	1,483,504	1.52%	1.31%	
Bloomington IN	3	918,737	1.52%	0.81%	
Muncie IN	2	1,637,662	1.02%	1.45%	